

TO: Members of the Honolulu City Council

FROM: Natalie Iwasa (10 pages)
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2017 MAY -9 PM 12: 02

HEARING: 10 a.m. Wednesday, April 26, 2017

SUBJECT: Bill 45 – **COMMENTS Regarding HART Reporting Requirements**

Aloha Chair Menor and Councilmembers,

During oral testimony on Bill 45, which revises the types of costs the rail surcharge may be used for, I brought up concerns about HART's inconsistent and uncorrected financial information. Following and attached are examples of errors related to cash balances. **Please revise Bill 45 to be specific about the basis used, e.g., cash, accrual, for the amounts you are asking for and/or to require HART to clearly label their numbers.**

In November 2016, HART presented its FY 2018 budget package to the board. The package included projected cash flows. On December 1, 2016, HART sent the FTA an updated financial plan. That plan also includes projected cash flows, but they are significantly different than those presented to the board.

Attached is a calculation of the differences between the budgeted cash flows and the amounts reported to the FTA. The explanation I was given for the \$43.6 million variance for the beginning of fiscal year 2018 is that there are differing assumptions underlying the two plans. Given that the beginning of fiscal year 2018 (July 1, 2017) was just seven months from the date of the report to the FTA, that explanation doesn't make sense.

In addition, if we look at the line items for the inflows and outflows for fiscal year 2018, more questions come to mind. Why are federal and GET funding each almost \$50 million higher in the budget package?

Why is there apparently no debt repayment for fiscal year 2018 in the budget package?

Questions should also be asked about details of the cash projection sent to the FTA. (See attached page 4 of my testimony.) For example, why is there a negative cash flow of \$140 million for total project costs in year 2035, eight years after the last expenditure?

Why is there over \$.5 billion in additional borrowing in year 2025, when projected cash inflows are about \$87 million higher than outflows?

Natalie Iwasa

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Last year HART also had an error in the cash balance that it reported to the board in its monthly report. According to a report given to the Council, which included audited cash balances as of March 31, 2016, cash was \$159,111,026. HART's monthly progress report, however, indicated the cash balance was \$158,655,626 or \$455,400 lower. Prior quarterly reports that I checked were no more than \$1 different. (See attached pages 8 - 10.)

Please hold HART accountable by requiring that errors they make be corrected in a timely manner.

Honolulu City Council, April 26, 2017

HART CASH FLOW PROJECTIONS DISCREPANCIES

	FTA Update 12/1/2016 \$ millions	HART Financial Audit	Budget Schedule FY 2018	HART Monthly Progress Rpt \$ millions	Approximate Variances \$ millions
Beginning FY 2016 (7/1/15)	192	293,010,823	n/a	293.0 1	101.0
Beginning FY 2017 (7/1/16)	95	94,658,680	n/a	94.7 2	-
Beginning FY 2018 (7/1/17)	25	n/a	68,559,126	n/a	43.6
Beginning FY 2019 (7/1/18)	25	n/a	324,976,125	n/a	300.0

1 July 2015 report page 17. (Attached page 6.)

2 July 2016 report page 19. (Attached page 7.)

CASH FLOW PROJECTIONS VARIANCES**Fiscal Year 2018**

	FTA Update 12/1/2016 \$ millions	Budget Schedule	Approximate Variances \$ millions
Beginning cash	\$ 25	\$ 68,559,126	\$ 43.6
Federal grant	246	294,587,133	48.6
GET	212	256,623,959	44.6
Debt proceeds	653	510,000,000	(143.0)
Total inflows	1,111	1,061,211,092	(49.8)
Total project uses	896	804,794,093	91.2
Debt repayment	215	-	215.0
Total outflows	1,111	804,794,093	306.2
Ending cash	\$ 25	\$ 324,976,125	\$ 300.0

Table A-1, Capital Plan and Ongoing Capital Cash Flows

Lighter font comments added by Natalie Iwasa.
 Dollar amounts listed are in millions.

	Total	Inception thru Feb-2016	FISCAL YEAR																			
			2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Beginning Cash Balance	\$298	\$298	\$192	\$95	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$209	\$141	\$111	\$13	(\$415)	(\$244)	(\$1,273)	(\$1,701)	(\$2,130)	(\$2,359)
Project Funding Sources:																						
G.E.T.	\$4,816	\$1,259	\$61	\$236	\$246	\$257	\$260	\$279	\$291	\$304	\$317	\$330	\$344	\$359	\$266	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Federal Grant	\$1,550	\$515	\$54	\$192	\$212	\$254	\$323	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
All Other	\$6	\$6	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Revenue	\$6,372	\$1,780	\$115	\$428	\$458	\$511	\$591	\$279	\$291	\$304	\$317	\$330	\$344	\$359	\$266	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Sources	\$6,372	\$1,780	\$115	\$428	\$458	\$511	\$591	\$279	\$291	\$304	\$317	\$330	\$344	\$359	\$266	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Project Uses:																						
Total Project Costs	\$8,165	\$1,885	\$213	\$706	\$875	\$870	\$1,158	\$691	\$773	\$571	\$333	\$116	\$89	\$26	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$140)
Debt Service	\$1,337	\$0	\$0	\$7	\$20	\$34	\$51	\$74	\$94	\$112	\$125	\$120	\$120	\$112	\$103	\$92	\$79	\$66	\$52	\$38	\$23	\$0
Total Project Uses	\$9,502	\$1,885	\$213	\$713	\$896	\$904	\$1,209	\$765	\$868	\$682	\$458	\$236	\$209	\$137	\$103	\$92	\$79	\$66	\$52	\$38	\$23	(\$132)
Net Current Change	(\$3,130)	(\$105)	(\$98)	(\$285)	(\$438)	(\$394)	(\$616)	(\$486)	(\$577)	(\$379)	(\$141)	\$87	\$136	\$222	\$163	(\$92)	(\$79)	(\$66)	(\$52)	(\$38)	(\$23)	\$132
Debt Proceeds	\$6,155	\$0	\$0	\$215	\$653	\$660	\$892	\$836	\$946	\$777	\$649	\$526	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less Debt Repayment	(\$6,170)	\$0	\$0	\$0	(\$215)	(\$267)	(\$274)	(\$350)	(\$370)	(\$398)	(\$508)	(\$429)	(\$204)	(\$251)	(\$261)	(\$337)	(\$350)	(\$363)	(\$377)	(\$391)	(\$406)	(\$421)
Ending Cash Balance	(\$2,847)	\$192	\$95	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$209	\$141	\$111	\$13	(\$415)	(\$244)	(\$1,273)	(\$1,701)	(\$2,130)	(\$2,359)	(\$2,847)

Note 1

Note 2

This table is rife with footing, i.e., addition, errors of \$1, which equates to \$1 million in each instance.

NOTE 1: Total projected costs from inception through 2034 total \$8,306, which is \$141 more than the "Total" column. HART has therefore included a negative cash flow of \$140 million in year 2035. At best, this is sloppy work. The cash flows up to 2034 should be adjusted so that the total is \$8,165, or the total projected cost should be changed to \$8,306.

NOTE 2: In 2025, projected tax revenues exceed projected expenditures by \$87, yet additional debt proceeds of \$526 is apparently planned, resulting in the highest cash balance over the entire 20 years. Why?

These projections should include the underlying assumptions as well as an explanation as to why debt repayment is \$15 higher than the debt proceeds.

FY 2018-2023 SIX-YEAR UPDATED CASH FLOW

Below is six-year cash flow based on assumed revenue sources, estimated financing costs, and forecasts for future years' capital expenditures.

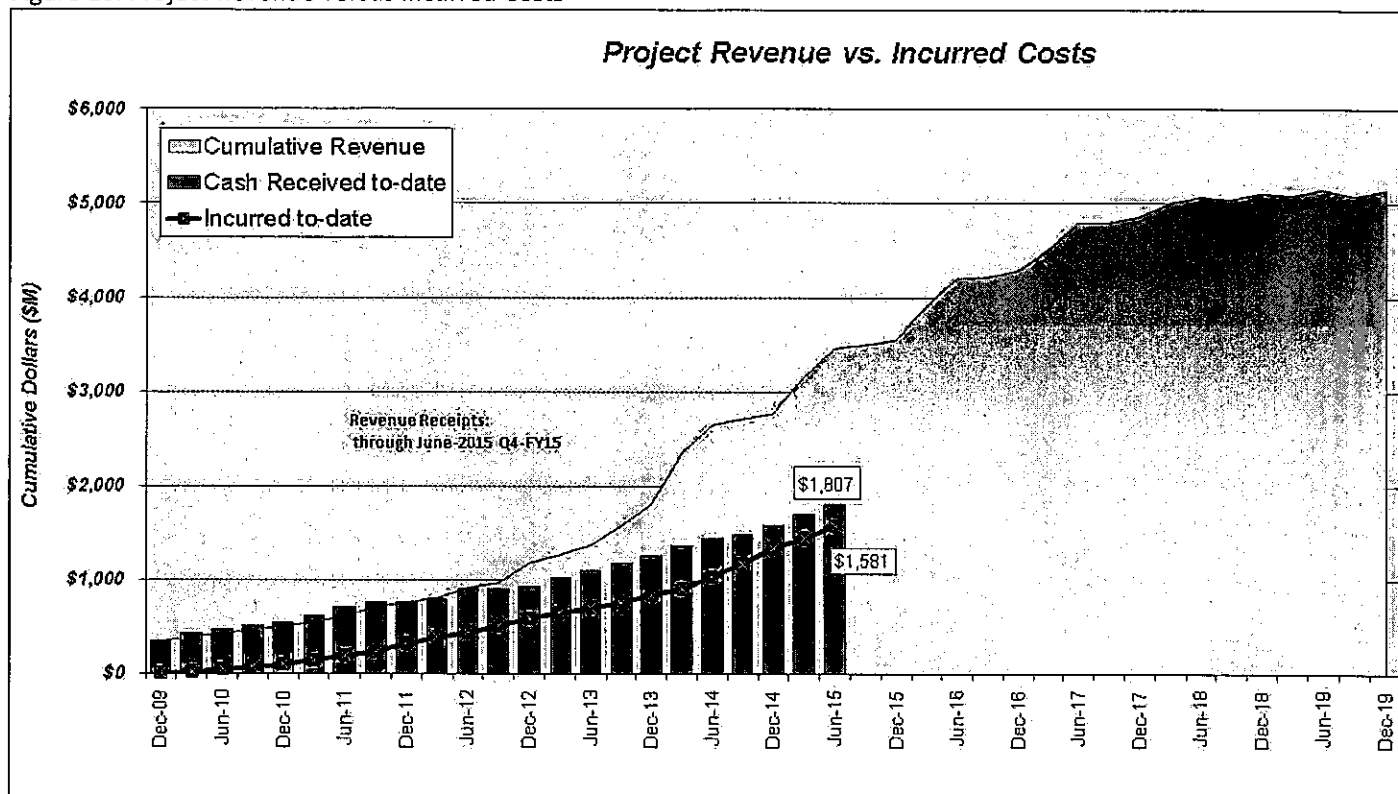
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Six-Year Total
BEGINNING BALANCE	\$ 68,559,126	\$ 324,976,125	\$ 404,658,288	\$ 206,040,573	\$ 308,681,484	\$ 313,070,129	\$ 68,559,126
Revenue & Debt Proceeds							
Revenue							
Federal Grant	294,587,133	229,474,254	213,628,152	2,929,669	-	-	740,619,208
G.E.T.	256,623,959	267,658,790	279,168,119	291,172,347	303,692,758	316,751,546	1,715,067,519
Private/Public	-	-	-	-	-	-	-
Total Revenue	551,211,092	497,133,044	492,796,271	294,102,016	303,692,758	316,751,546	2,455,686,727
Debt Proceeds							
Fixed Rate Bonds	402,302,800	226,602,800	291,862,800	251,702,800	101,102,800	-	1,273,574,000
G.O Bonds:	-	-	-	-	-	-	-
Less Issuance Costs	(2,302,800)	(1,602,800)	(1,862,800)	(1,702,800)	(1,102,800)	-	(8,574,000)
TECP (net) Max \$350 m	110,000,000	63,400,000	(55,800,000)	34,300,000	98,900,000	60,000,000	310,800,000
Variable Bonds	-	-	-	-	-	-	-
Total Debt Proceeds	510,000,000	288,400,000	234,200,000	284,300,000	198,900,000	60,000,000	1,575,800,000
Total Revenue & Debt Proceeds	1,061,211,092	785,533,044	726,996,271	578,402,016	502,592,758	376,751,546	4,031,486,727
Costs							
CIP Type							
Construction	500,759,019	506,074,575	753,111,616	288,844,618	149,774,530	82,345,995	2,280,910,353
Consultants	44,932,240	37,838,212	29,382,733	28,071,532	27,851,817	27,851,817	195,928,351
Contingency	-	-	98	7,955,740	172,127,494	31,600,374	211,683,706
Design	2,609,482	1,059,053	-	-	-	-	3,668,535
Inspection	20,387,315	21,950,961	25,285,309	27,573,371	27,318,236	17,960,329	140,475,521
Operating	12,092,289	11,772,592	11,133,198	11,133,198	11,133,198	11,133,198	68,397,674
Programmatic Agreements	733,874	453,042	-	-	-	-	1,186,916
Project-wide Art	622,830	794,280	794,280	794,280	794,280	794,280	4,594,230
Quality Audits	4,927,451	4,927,451	4,927,451	4,927,451	4,927,451	4,927,451	29,564,707
Recertifications	-	-	-	-	-	-	-
Right of Way	96,993,225	14,516,210	-	-	-	-	111,509,435
Utility Work by Private Utility Owners	84,642,024	68,165,443	60,415,284	63,568,698	58,990,280	27,914,937	363,696,665
Total CIP Costs	768,699,748	667,551,819	885,049,970	432,868,888	452,917,286	204,528,381	3,411,616,093
Operating (less Interest Expense)	24,094,345	25,299,062	26,564,015	27,892,216	29,286,827	30,751,168	163,887,634
Interest Expense	12,000,000	13,000,000	14,000,000	15,000,000	16,000,000	17,000,000	87,000,000
Total Operating Costs	36,094,345	38,299,062	40,564,015	42,892,216	45,286,827	47,751,168	250,887,634
Total CIP & Operating Costs	804,794,093	705,850,881	925,613,986	475,761,104	498,204,113	252,279,549	3,662,503,727
Net Change	256,416,999	79,682,163	(198,617,715)	102,640,911	4,388,645	124,471,997	368,982,999
ENDING BALANCE	\$ 324,976,125	\$ 404,658,288	\$ 206,040,573	\$ 308,681,484	\$ 313,070,129	\$ 437,542,125	\$ 437,542,125
Assumptions:							
1) Revenue & Debt Proceeds from current Cash Flow Annualized PMOC FY 2017							
2) \$6.8B CIP cost flow from Project Controls, Nov 2016							
3) Operating costs assumes 5% annual increase							
4) Interest expense assumes \$1M annual increase							

2.5 Project Revenue and Costs

(data as of June 26, 2015)

Ending Cash Balance 6/30/15 = \$293.0M
(previous report = \$327.3M)

Figure 10. Project Revenue versus Incurred Costs



Planned Funding levels as per the June 2012 FFGA Finance Plan
Data date for Revenue & Incurred Cost = June 26, 2015

Figure 11. Cash Balance Summary

JUNE 30, 2015 CASH BALANCE SUMMARY		
	JUNE	YTD Cumulative
Beginning Cash Balance	327,344,756	441,011,319
Expenditures:		
Operating Expenditures	(1,909,194)	(16,147,106)
Capital Expenditures	(42,790,284)	(508,808,372)
Expenditures Total:	(44,699,478)	(524,955,478)
Receipts:		
GET Surcharge	0	220,793,293
FTA Drawdown	10,276,116	155,546,605
Interest	27,319	239,997
Other (rental, refunds, copy fees, etc.)	62,109	375,088
Receipts Total:	10,365,544	376,954,982
Ending Cash Balance 06/30/15	293,010,823	293,010,823

Note: Project Cost Reports can be found in Appendix C.

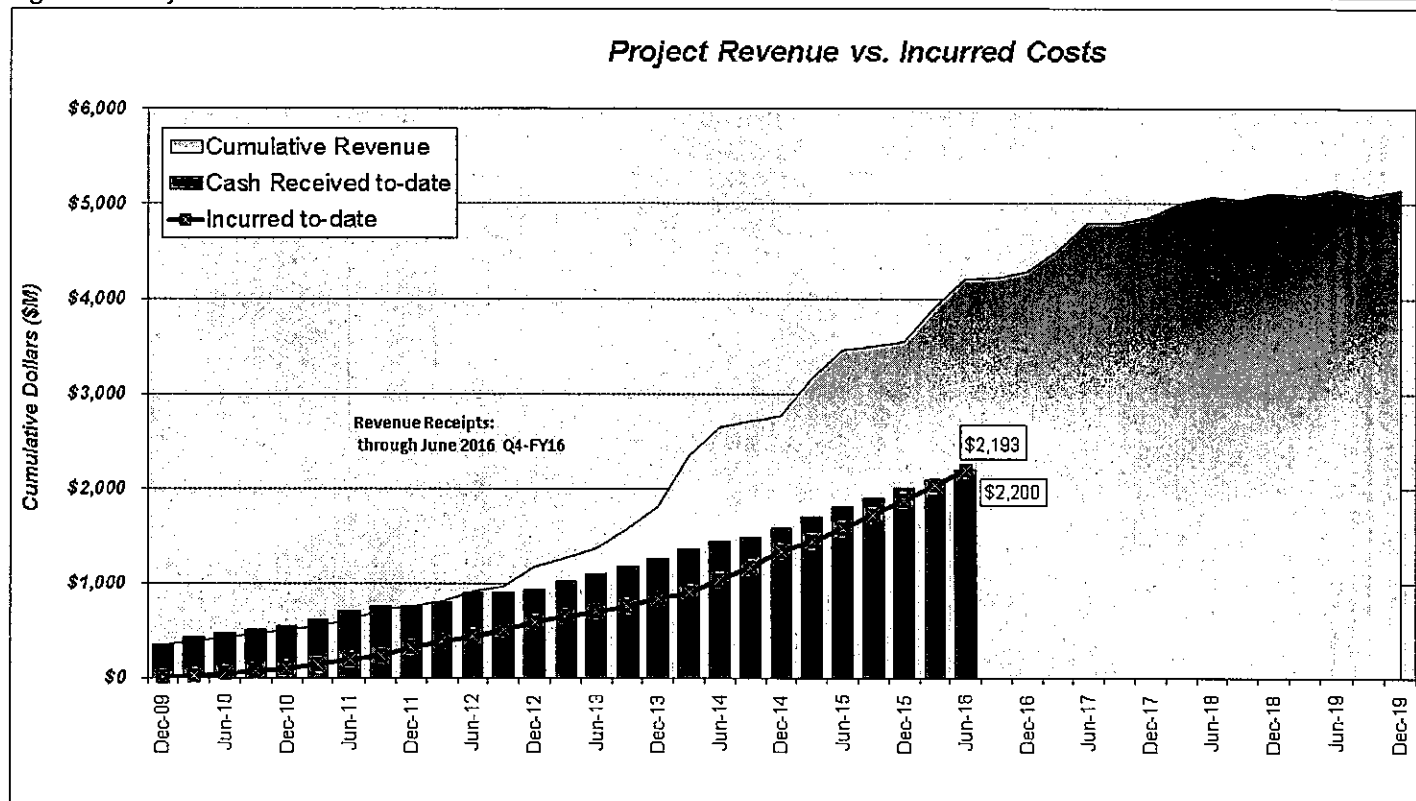
2.5 Project Revenue and Costs

(data as of June 24, 2016)

Ending Cash Balance 6/30/16 = \$94.7M

(previous report = \$123.0M)

Figure 10. Project Revenue versus Incurred Costs



Planned Funding levels as per the June 2012 FFGA Finance Plan

Data date for Revenue & Incurred Cost = June 24, 2016

Figure 11. Cash Balance Summary

JUNE 2016 CASH BALANCE SUMMARY		
	JUNE	FY16 YTD Cumulative
Beginning Cash Balance 06/01/16	123,016,451	293,010,823
Expenditures:		
Operating Expenditures	(2,587,741)	(17,995,780)
Capital Expenditures	(44,135,061)	(568,037,722)
Expenditures Total:	(46,722,801)	(586,033,502)
Receipts:		
GET Surcharge	0	229,344,241
FTA Drawdown	18,240,510	157,579,174
Interest	115,032	376,077
Other (rental, refunds, copy fees, etc.)	9,489	381,867
Receipts Total:	18,365,031	387,681,360
Ending Cash Balance 06/30/16	94,658,681	94,658,681

Note: Project Cost Reports can be found in Appendix C.

Natalie Iwasa Testimony
Honolulu City Council April 26, 2017
HART CASH BALANCE DISCREPANCY

	<u>March 31, 2016</u>
Cash & cash equivalents per report to council	\$ 159,111,026
Cash & cash equivalents per monthly progress report to HART board	158,655,626
Variance	<u>\$ 455,400</u>

NOTE: Amounts reported for 12/31/15 and other quarters agreed or were only \$1 off.

HONOLULU AUTHORITY FOR RAPID TRANSPORTATION
QUARTERLY CASH AND COUNTY SURCHARGE REVENUE REPORT
AS OF March 31, 2016
(Made Pursuant to City Council Resolution 12-188, CD1)

Interest Revenue

FY2007	\$	18,000
FY2008		3,724,229
FY2009		3,595,915
FY2010		246,603
FY2011		329,693
FY2012		240,270
FY2013		310,594
FY2014		325,874
FY2015		239,997
FY2016, Q3		184,036
	\$	<u>9,215,210</u>

GET Surcharge Revenue

FY2007	\$	48,424,383
FY2008		169,113,552
FY2009		160,855,727
FY2010		157,555,320
FY2011		179,108,573
FY2012		190,664,994
FY2013		173,822,505
FY2014		218,390,853
FY2015		223,666,342
FY2016, Q3		177,013,858
	\$	<u>1,698,616,107</u>

Expenditures to date

FY2007	\$	310,285
FY2008		25,962,676
FY2009		54,205,206
FY2010		99,126,584
FY2011		109,063,791
FY2012		254,142,462
FY2013		294,380,188
FY2014		343,180,946
FY2015		456,652,423
FY2016, Q3		347,174,209
	\$	<u>1,984,198,770</u>

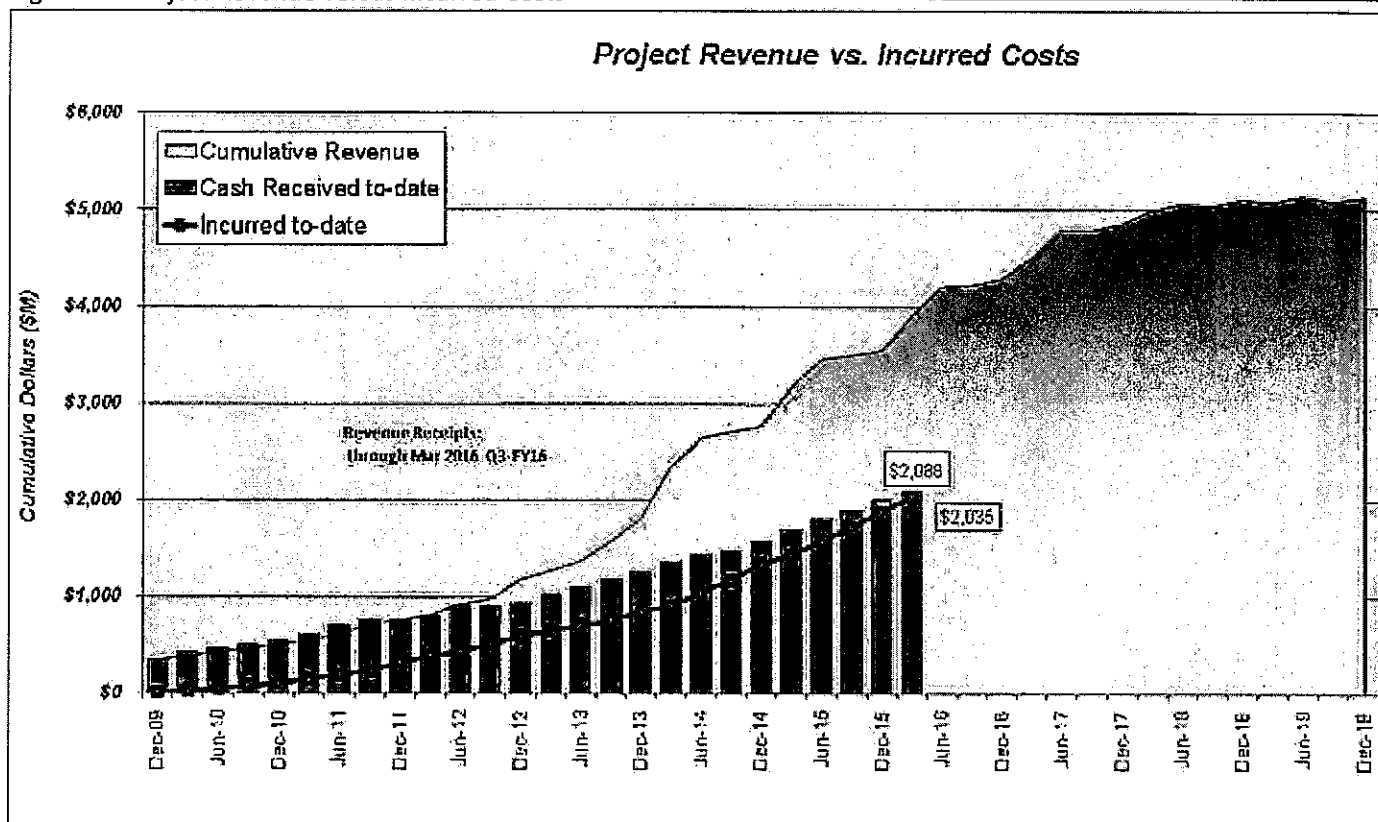
Cash & cash equivalents on hand at March 31, 2016	\$	<u>159,111,026</u>
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2.5 Project Revenue and Costs

(data as of March 25, 2016)

Ending Cash Balance 3/31/16 = \$158.7M
(previous report = \$192.3M)

Figure 10. Project Revenue versus Incurred Costs



Planned Funding levels as per the June 2012 FFGA Finance Plan
Data date for Revenue & Incurred Cost = March 25, 2016

Figure 11. Cash Balance Summary

MARCH 2016 CASH BALANCE SUMMARY		
	MARCH	FY16 YTD Cumulative
Beginning Cash Balance 03/01/16	192,335,290	293,010,823
Expenditures:		
Operating Expenditures	(1,872,167)	(12,132,625)
Capital Expenditures	(41,840,257)	(404,598,819)
Expenditures Total:	(43,712,424)	(416,731,444)
Receipts:		
GET Surcharge	0	168,374,947
FTA Drawdown	9,976,903	113,484,563
Interest	33,400	184,036
Other (rental, refunds, copy fees, etc.)	22,456	332,701
Receipts Total:	10,032,759	282,376,247
Ending Cash Balance 03/31/16	158,655,626	158,655,626

Note: Project Cost Reports can be found in Appendix C.